

# **Seattle Police Department: Forfeiture Funds and Investigative Fund**

## **Executive Summary**

We reviewed the internal control structures and compliance with relevant laws and regulations for the Seattle Police Department's three forfeiture funds and the Vice Unit's investigative fund. Police Department management is responsible for establishing and maintaining an internal control structure and for compliance with laws and regulations. See report Addendum 1 for the definition of internal controls, responsibility for establishing internal controls, objectives and inherent limitations of an internal control system, and standard internal controls for cash transactions.

During the course of our audit work, other than those noted below, we noted no matters involving the Police Department's forfeiture funds' and Vice Unit's investigative fund's internal control structure, operations or legal compliance. We noted certain process improvements that the Fiscal Division, the Narcotics Unit and the Vice Unit can make to ensure compliance with laws and regulations, and proper cash handling. In particular, we found:

- The Seattle Police Department's Fiscal Division should correct its method of calculating the remittances to the State and improve its accounting for proceeds from the sale of miscellaneous forfeited property, and should ensure all its expenditures from the State Drug Forfeiture Fund reflect the intent of Council appropriations.
- The Fiscal Division, the Narcotics Unit and the Vice Unit need to make certain improvements in controls related to the Federal Drug Enforcement Forfeiture Fund and Vice Enforcement Forfeiture/Money Laundering Fund to ensure receipt of all requested funds, accurate reporting of fund balances, and accurate employee reimbursement for travel-related expenses.
- The Vice Unit needs to improve safeguards over Investigative Fund cash, to include management controls such as clear accountability for cash and appropriate segregation of duties.

Our recommendations are summarized in Addendum 2 to our audit report.

The Seattle Police Department is planning to make the following improvements as noted in Addenda 3 and 4 to our audit report:

- The Fiscal Division plans to make all required remittances for retained vehicles and items held in evidence. In addition, the division plans to conduct a study to estimate the proceeds resulting from sales of miscellaneous property and will determine appropriate procedures based upon the results. The division also plans to track expenditures of forfeited funds to ensure compliance with State law and City Council intent.
- The Vice and Narcotics units plan to track and report upon the status of requests for the City's share of federal forfeiture monies. In addition, the Fiscal Division plans to reconcile annual federal forfeiture report balances to the Seattle Financial Management System. The Fiscal Division also will work more closely with the City's Travel Coordinator to ensure that travel expenses conform to City rules.
- The Vice Unit will develop policies to document access to its Investigative Fund cash safe and will implement a dual person process over its monthly cash count to provide additional controls.

In addition, the Finance Department plans to update and disseminate travel policies and procedures.

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## Table of Contents

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Executive Summary .....	i
Purpose.....	1
Background.....	1
♦ State Drug Forfeiture Fund .....	1
♦ Federally Mandated Funds.....	2
Scope and Methodology .....	3
<b>Results of Our Work</b> .....	3
♦ State Drug Forfeiture Fund Procedures Can Be Improved.....	3
• Calculation of Remittance Due the State.....	3
• Expenditure of Money Obtained from Auctioning of Forfeited Miscellaneous Property ..	4
• Monitoring Expenditures for Compliance with Council Intent.....	5
♦ Controls Over Federal Forfeiture Funds Need Some Improvement.....	6
• Tracking of Requests for Share of Federal Forfeiture Monies .....	6
• Federal Forfeiture Fund Balances Not Reconciled to the City’s Financial Records .....	6
• Staff Need Better Training and Manuals Concerning Travel Expenditures .....	7
♦ Safeguards Over Vice Unit Investigative Fund Cash Need Strengthening .....	8
Other Matters .....	8
Addenda .....	
1. Internal Controls .....	10
2. Office of City Auditor’s Audit Recommendations.....	12
3. Police Department Fiscal Division’s Response to Our Audit Report.....	14
4. Seattle Police Department Vice and Narcotics Units’ Response to Our Audit Report ...	16
5. Forfeiture Funds Overview .....	17
6. Description of Audit Tests.....	18
7. Seattle Municipal Code Related to Travel Expenses.....	19

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**Purpose**

The Seattle Police Department sells property it seizes in conjunction with criminal cases and deposits proceeds and seized monies into three separate funds: the State Drug Forfeiture Fund, the Federal Drug Enforcement Forfeiture Fund, and the Federal Vice Enforcement Forfeiture/ Money Laundering Fund. Because these funds are highly regulated, we reviewed the controls to determine whether they provide reasonable assurance that the City receives its share of Federal funds, that expenses are appropriate, that records and reports of receipts and expenditures are accurate, and that cash receives proper safeguarding.

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**Background**

Various state and federal legislation allows the Seattle Police Department to seize personal or real property in conjunction with prosecution for certain crimes and regulate how the funds can be used. Addendum 5 illustrates the accounting funds as they relate to specific crimes.

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**State Drug Forfeiture Fund**

Generally, under State law (RCW 69.50.505) the department may seize property directly related to manufacturing and distributing illegal drugs, or property (such as cash, jewelry, vehicles and real property) directly purchased with money obtained from selling illegal drugs. Defendants forfeit their rights to seized property if (a) a hearing examiner awards the property to the Police Department, (b) the defendant does not appear for a court hearing, or (c) the defendant agrees to relinquish the property as part of an out-of-court settlement.

The law requires destruction of certain types of seized property (for example, illegal drugs) but permits the seizing agency to retain or sell other property to expand and improve narcotics-related law enforcement activity. Monies the department obtains from such sales are deposited into the City's State Drug Forfeiture Fund and may not replace preexisting funding sources for budget purposes. The City must remit 10 percent of the net value of the property it retains or sells each year to the State. Expenditures from the State Drug Forfeiture Fund amounted to \$282,570 in 1993.



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**Federally Mandated Funds**

Federal law enforcement officers may seize property related to a variety of federal crimes, including those related to illegal drugs, money laundering, gambling, racketeering, and child pornography. When the Seattle Police Department works on a case jointly with federal officers, the federal agency physically maintains possession of the property and prosecutes the case. However, the Seattle Police Department may apply for a share of proceeds from the property, and federal law permits the United States Attorney General to share the forfeited property or money from the sale of the forfeited property with the City of Seattle. Depending on the type of crime, the City of Seattle deposits this money in the Vice Enforcement/Money Laundering Fund or the Federal Drug Enforcement Fund. The amounts may be significant. For example, in 1991, the Seattle Police Department participated in the investigation of a gambling and money laundering operation in a hotel in Seattle's International District which resulted in seizure of the property. The federal agency handled the prosecution and disposition of real property and in 1993 remitted \$241,157 to the Seattle Police Department for the Vice Enforcement/Money Laundering Fund.

City ordinances authorize the Seattle Police Department to make expenditures from the Federal Drug Enforcement and the Vice Enforcement/Money Laundering funds for training, equipment and operational expenses which facilitate drug or vice enforcement actions. In addition, City ordinance allows the Seattle Police Department to transfer moneys from the Vice Enforcement/Money Laundering Fund to a separate Investigative Fund for investigative expenses. The Vice Unit has elected to transfer federal money to the Investigative Fund only if it depletes General Fund money. City ordinances require annual reporting of expenditures to the City Council and forbid the Police Department from considering the federal forfeiture funds when developing the department's budget. Expenditures from the two federal forfeiture funds amounted to about \$318,000 in 1993, including \$39,115 transferred to the Investigative Fund.

At the end of 1993, the balance of the Federal Vice Enforcement/Money Laundering Fund was \$183,794. The ending balance of the Federal Drug Enforcement

Forfeiture Fund was \$124,784.

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## Scope and Methodology

The scope of our audit included the State Drug Forfeiture Fund, the Federal Drug Forfeiture Enforcement Fund, the Vice Enforcement/Money Laundering Fund, and the Vice Unit's Investigative Fund. We conducted our field work between August and November 1994. During that time we interviewed Seattle Police Department staff; reviewed ordinances, federal guidelines, State laws, and departmental policies and procedures; and performed various reconciliations and tests of transactions. For details of these audit tests, see Addendum 6.

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## Results of Our Work

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### State Drug Forfeiture Fund Procedures Can Be Improved

During this review we found no inappropriate expenditures were made from the State Drug Forfeiture Fund. However, we found opportunities for the Seattle Police Department's Fiscal Division to improve certain remitting, accounting, monitoring and reporting procedures for the State Drug Forfeiture Fund. These changes would help ensure compliance with State law and Council intent. Specifically, the division needs to review its methodology for calculating the amount of remittance due to the State, establish procedures which ensure that it spends money obtained from forfeited miscellaneous property auctions in compliance with State law, and monitor expenditures to ensure that they reflect the intent expressed in budget appropriation ordinances.

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#### Calculation of Remittance Due the State

The Seattle Police Department's Fiscal Division may not be accurately remitting to the State its ten percent share of the estimated value of forfeited property. State law [RCW 69.50.505 (h) (1) and (h) (2)] requires the city to remit to the state each January ten percent of the net proceeds of any property forfeited during the preceding year. The law defines net proceeds of forfeited property as the value of the forfeitable interest in the property after deducting the cost of any bona fide security interest and, in the case of sold property, after deducting the cost of sale. According to the State Auditor, this definition of net proceeds includes forfeited property which the City retains for its own use as well as money obtained from the sale of forfeited property. The Fiscal Division, however, in calculating the state's ten percent of forfeited property does not include (a) unreleased forfeited property being held as evidence, (b) forfeited

miscellaneous property, and (c) unsold forfeited vehicles in Police Department use. The Police Department has indicated it plans to change its treatment of unsold forfeited vehicles in the department's use, and will timely remit 10 percent of the value of the vehicle to the State.

In 1993, we estimate the State's remittance should have included an additional \$8,000 for unsold vehicles retained for the department's use. We were unable to determine the value of miscellaneous forfeited property and forfeited property being held in evidence.

***Recommendation #1: The Fiscal Division should consult with the City of Seattle's Law Department to ensure that it calculates the annual remittance to the state accurately, based on full disclosure of all forfeited property, including forfeited vehicles which the Seattle Police Department retains for its own use and miscellaneous forfeited property.***

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Expenditure of Money  
Obtained from Auctioning  
of Forfeited Miscellaneous  
Property

The Fiscal Division does not keep separate accounting records of forfeited miscellaneous property sold at auction, therefore, it is not able to put the money it obtains into the State Drug Forfeiture Fund. Instead the money presently goes into the Police Pension Fund along with the money obtained from sale of miscellaneous City property. According to an employee of the Fiscal Division, the division does not track forfeited miscellaneous property separate from other miscellaneous property because it believes such record keeping would be too cumbersome to be cost effective. However, this arrangement is contrary to State law [RCW 69.50.505 (I)], which requires that such money must be used exclusively for narcotics-related law enforcement activity.

***Recommendation #2: The Fiscal Division should estimate how much money results from the sale of miscellaneous forfeited property in a typical month. If the amount is small, the Division should explore with the Law Department whether the City might obtain a waiver from the requirement that money from sale of miscellaneous forfeited property be used only for enhancement of narcotics law-enforcement activities. Obtaining such a waiver might require a change in State law. Alternatively, the Fiscal Division should explore other options with the Law Department, such as estimating proceeds from miscellaneous property sales and remitting***

*the State's share of that amount from the Police Department's budget. In the absence of acceptable options, however, the Fiscal Division must separately account for miscellaneous forfeited property and deposit money from sales of this property to the State Drug Forfeiture Fund.*

Monitoring Expenditures for Compliance with Council Intent

The Seattle Police Department's Fiscal Division does not have an adequate system for tracking and reporting on expenditures from the State Drug Forfeiture Fund. Such controls are needed to ensure the expenditures are appropriate and in accord with City Council intent. State and City laws require that property and proceeds from drug seizures be used exclusively for narcotics related law enforcement activity. The City Council also expresses its intent for spending drug seizure monies in its budget appropriation ordinance.

In the absence of adequate tracking and monitoring reports, neither the Police Department nor the City Council can readily determine whether funds have been spent appropriately. For instance, in our review of 1993 expenditures, we found that the Police Department's budget appropriation included about \$115,000 for Law Department personnel costs in support of the City's drug abatement program. Although the Law Department used the monies to fund the salaries of an assistant attorney, an Administrative Specialist I and an Administrative Specialist II, the Law Department did not report to the Police Department whether the drug abatement program positions were filled and what the actual salaries were. The Police Department and City Council thus had no assurance that the monies were spent as intended per the budget appropriation ordinance and in compliance with State law. Tracking and reporting such expenditures will allow the Police Department management and the City Council to provide proper oversight over the funds.

***Recommendation #3: The Fiscal Division should develop a system to track and monitor expenditures from the State Drug Forfeiture Fund to ensure they are appropriate. The Division should also report these expenditures (actual and projected to year end) to the City Council and the senior managers of the Seattle Police Department, when submitting the next year's draft budget appropriation ordinance.***

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**Controls Over Federal Forfeiture Funds Need Some Improvements**

The Seattle Police Department needs to make certain improvements in the controls over the federal Drug Forfeiture and Vice Enforcement/Money Laundering funds to ensure receipt of all requested funds, accurate reporting of fund balances, and accurate employee reimbursement for travel-related expenses.

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**Tracking of Requests for Share of Federal Forfeiture Monies**

Federal forfeiture accounting guidelines recommend sequentially numbering requests for the City's share of federal forfeiture monies and keeping a log of the requests for control purposes. In addition, good business practice requires periodic review of the log to ensure proper disposition of requests for shared proceeds. These practices are particularly important because federal settlement checks may take months, or years, to arrive and do not consistently come to the same Police Department unit. However, the Vice unit of the Seattle Police Department is not formally tracking these requests. The Vice and Narcotics units also lack a follow-up process to determine whether the federal court has settled the case and has sent the City's share of proceeds to the appropriate unit. Neither the Fiscal Division nor the Narcotics and Vice units follow up periodically with Federal authorities to determine the status of long outstanding requests.

Tracking requests is difficult because the Narcotics and Vice units do not sequentially number their request forms. The Fiscal Division does maintain a log of requests sent by the Narcotics and Vice units, but without numbered forms, the Fiscal Division has no assurance that it has received all forms.

***Recommendation #4: The Narcotics and Vice units should sequentially number their requests for the City's share of federal forfeiture monies. The Fiscal Division should continue to maintain its log of these requests and ensure that they are in numerical sequence. In addition, the Narcotics and Vice units should implement a process for following up on long-outstanding requests for federal forfeiture monies.***

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**Federal Forfeiture Fund Balances Not Reconciled to the City's Financial Records**

Good management control practices require balancing of management reports to the source system to ensure accuracy and management reporting of discrepancies. Periodic reconciliations can identify poor procedures, inadequate records or misspent funds before they become

serious problems. However, the Fiscal Division does not reconcile its balances for the two federal forfeiture funds to the City's financial records. While we found that the 1993 year-end balances which the Fiscal Division reported for the federal Drug Enforcement and Vice Enforcement/Money Laundering funds to Police Department management and the City Council differed only slightly from the amounts in SFMS this practice can lead to future problems. Because the Fiscal Division does not reconcile fund balances to the City's records, the Division had not detected these differences.

***Recommendation #5: The Fiscal Unit should reconcile their annual reports of federal forfeiture fund balances to City records of post closing fund balances.***

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**Staff Need Better Training and Manuals Concerning Travel Expenditures**

In our review of travel expenditures from the two federal forfeiture funds, we found staff responsible for reviewing and approving travel-related expenditures were unaware of the limitations which the City Municipal Code sets regarding justifiable reimbursement, particularly reimbursement for meals. See Addendum 7 for disallowed travel expenses. They also did not have a readily accessible document describing all applicable rules for reimbursing travel expenses. Because they were unaware of City policy, they processed unauthorized travel meal expenditures in four of the eight transactions we examined from the Vice Enforcement/Money Laundering Fund and in three of the four transactions we examined from the Drug Enforcement Fund. While the financial magnitude of these unauthorized expenditures was minor, \$150 out of \$197,000 tested, it did highlight the need for the department to ensure that their staff is provided with the necessary information for appropriate reimbursement of travel-related expenditures.

***Recommendation #6: The Seattle Police Department staff responsible for reviewing and approving claims for travel expenses should work with the City's Travel Coordinator in the Finance Department to update their knowledge of relevant laws, regulations, and City ordinances to ensure that they process travel claims appropriately. The City should also***

- update its travel policy and procedures manual; and***
- distribute the travel policy and procedures document to departmental employees responsible for reviewing and***

*approving travel expense claims and advances.*

**Finance Department's Response:** The Accounting Services manager plans to update and disseminate travel policies and procedures following completion of the 1994 Comprehensive Annual Financial Report.

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**Safeguards Over Vice Unit  
Investigative Fund Cash Need  
Strengthening**

In reviewing controls over the Vice Unit's Investigative Fund, we found that management controls over cash need strengthening. We found that the Seattle Police Department lacked two important requirements of good management controls, clear accountability for cash and appropriate segregation of duties. The Vice Unit maintains Investigative Fund cash in a safe that five persons can access individually, if necessary, for investigative expenses. According to Vice Unit management, all five individuals need access to the safe to provide access to cash during all three shifts, seven days a week. Generally access to the safe occurs under dual control, with a second officer present. However, because any one of the five individuals can access the safe alone, determining responsibility would be difficult if a misappropriation were to occur. In addition, one of these individuals who routinely accesses the safe also reports on cash usage and performs a monthly cash count. This arrangement gives that individual complete control over the cash and is inappropriate because it may allow misappropriations of cash to go undetected.

**Recommendation #7:** *The Vice Unit should strengthen its controls over the Investigative Fund cash by implementing cost effective and operationally feasible procedures. Such procedures should include (1) limiting unaccompanied access to the safe as far as feasible, (2) maintaining a record indicating instances of unaccompanied access, (3) requiring that the cash count be performed in the presence of a second responsible person, (4) ensuring that the cash count is compared to an accounting of cash maintained from the approved monthly expense reports, and (5) directing that any shortfall be reported immediately to the Vice Unit Captain.*

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**Other Matters**

During the course of our audit, certain matters came to our attention that were outside of the scope of our review. We did not perform additional testing or analysis to determine the exposure associated with these matters. We are providing the Seattle Police

Department's management with this section for their information.

The Narcotics and Vice units maintain a comprehensive case tracking system that records property seizures, forfeited property, and other matters pertinent to the case. The Fiscal Division also maintains its own database of forfeited property to provide reporting to State and City officials which duplicates some of the Narcotics and Vice units' seizure and forfeiture information. The units do not regularly reconcile data between their systems to ensure consistency, completeness and accuracy of information.

By allowing the Fiscal unit to access the Vice and Narcotics databases, the Seattle Police Department may be able to more efficiently use resources and eliminate potential inaccuracies. Alternatively, inaccuracies could also be eliminated through periodic reconciliations of data between Fiscal's records and Vice and Narcotics units' records.

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**INTERNAL CONTROLS**

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**Definition**

Chapter 6, paragraph 51, of the Government Auditing Standards defines internal controls as “the plan of organization and methods and procedures adopted by management to ensure that its goals and objectives are met; that resources are used consistent with laws, regulations, and policies; that resources are safeguarded against waste, loss, and misuse; and that reliable data are obtained, maintained, and fairly disclosed in reports.”

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**Management’s Responsibility For Establishing Internal Controls**

Establishing and maintaining an internal control structure is an important management responsibility. To provide reasonable assurance that an entity’s objectives will be achieved, the internal control structure should be under ongoing supervision by management to determine that it is operating as intended and that it is modified as appropriate for changes in conditions.

*--American Institute of Certified Public Accountants*

Officials entrusted with the resources are responsible for establishing and maintaining effective control.

*--Government Auditing Standards*

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**Objectives and Inherent Limitations of an Internal Control System**

The objectives of an internal control system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management’s authorization and are recorded properly to permit the preparation of financial statements in accordance with general accepted accounting principles. Because of inherent limitations in any system of internal accounting control, errors or irregularities may occur and not be detected. Also, projections of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

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**INTERNAL CONTROLS**

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**Standard Internal Controls for  
Cash Transactions**

Practices that indicate good internal control over cash include separation of duties between handling cash, record keeping, and authorization; prompt deposits of cash received; adequate safeguarding of cash; signatures for monies disbursed; periodic reconciliation of cash accounting records by a custodian's supervisor or an independent party; and proper authorization and control of disbursements.

**Office of City Auditor's Audit Recommendations**

Recommendation #1:	The Fiscal Division should consult with the City of Seattle's Law Department to ensure that it calculates the annual remittance to the state accurately, based on full disclosure of all forfeited property, including forfeited vehicles which the Seattle Police Department retains for its own use and miscellaneous forfeited property.
Recommendation #2:	The Fiscal Division should estimate how much money results from the sale of miscellaneous forfeited property in a typical month. If the amount is small, the Division should explore with the Law Department whether the City might obtain a waiver from the requirement that money from sale of miscellaneous forfeited property be used only for enhancement of narcotics law-enforcement activities. Obtaining such a waiver might require a change in State law. Alternatively, the Fiscal Division should explore other options with the Law Department, such as estimating proceeds from miscellaneous property sales and remitting the State's share of that amount from the Police Department's budget. In the absence of acceptable options, however, the Fiscal Division must separately account for miscellaneous forfeited property and deposit money from sales of this property to the State Drug Forfeiture Fund.
Recommendation #3:	The Fiscal Division should develop a system to track and monitor expenditures from the State Drug Forfeiture Fund to ensure they are appropriate. The Division should also report these expenditures (actual and projected to year end) to the City Council and the senior managers of the Seattle Police Department, when submitting the next year's draft budget appropriation ordinance.
Recommendation #4:	The Narcotics and Vice units should sequentially number their requests for the City's share of federal forfeiture monies. The Fiscal Division should continue to maintain its log of these requests and ensure that they are in numerical sequence. In addition, the Narcotics and Vice units should implement a process for following up on long-outstanding requests for federal forfeiture monies.

## Office of City Auditor's Audit Recommendations

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**Recommendation #5:**

The Fiscal Unit should reconcile their annual reports of federal forfeiture fund balances to City records of post closing fund balances.

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**Recommendation #6:**

The Seattle Police Department staff responsible for reviewing and approving claims for travel expenses should work with the City's Travel Coordinator in the Finance Department to update their knowledge of relevant laws, regulations, and City ordinances to ensure that they process travel claims appropriately. The City should also

- update its travel policy and procedures manual; and
- distribute the travel policy and procedures document to departmental employees responsible for reviewing and approving travel expense claims and advances.

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**Recommendation #7:**

The Vice Unit should strengthen its controls over the Investigative Fund cash by implementing cost effective and operationally feasible procedures. Such procedures should include (1) limiting unaccompanied access to the safe as far as feasible, (2) maintaining a record of each unaccompanied access, (3) requiring that the cash count be performed in the presence of a second responsible person, (4) ensuring that the cash count is compared to an accounting of cash maintained from the approved monthly expense reports, and (5) directing that any shortfall be reported immediately to the Vice Unit Captain.

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**Seattle Police Department Fiscal Division's Response to Our Audit Report**

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**Seattle Police Department Fiscal Division's Response to Our Audit Report (continued)**

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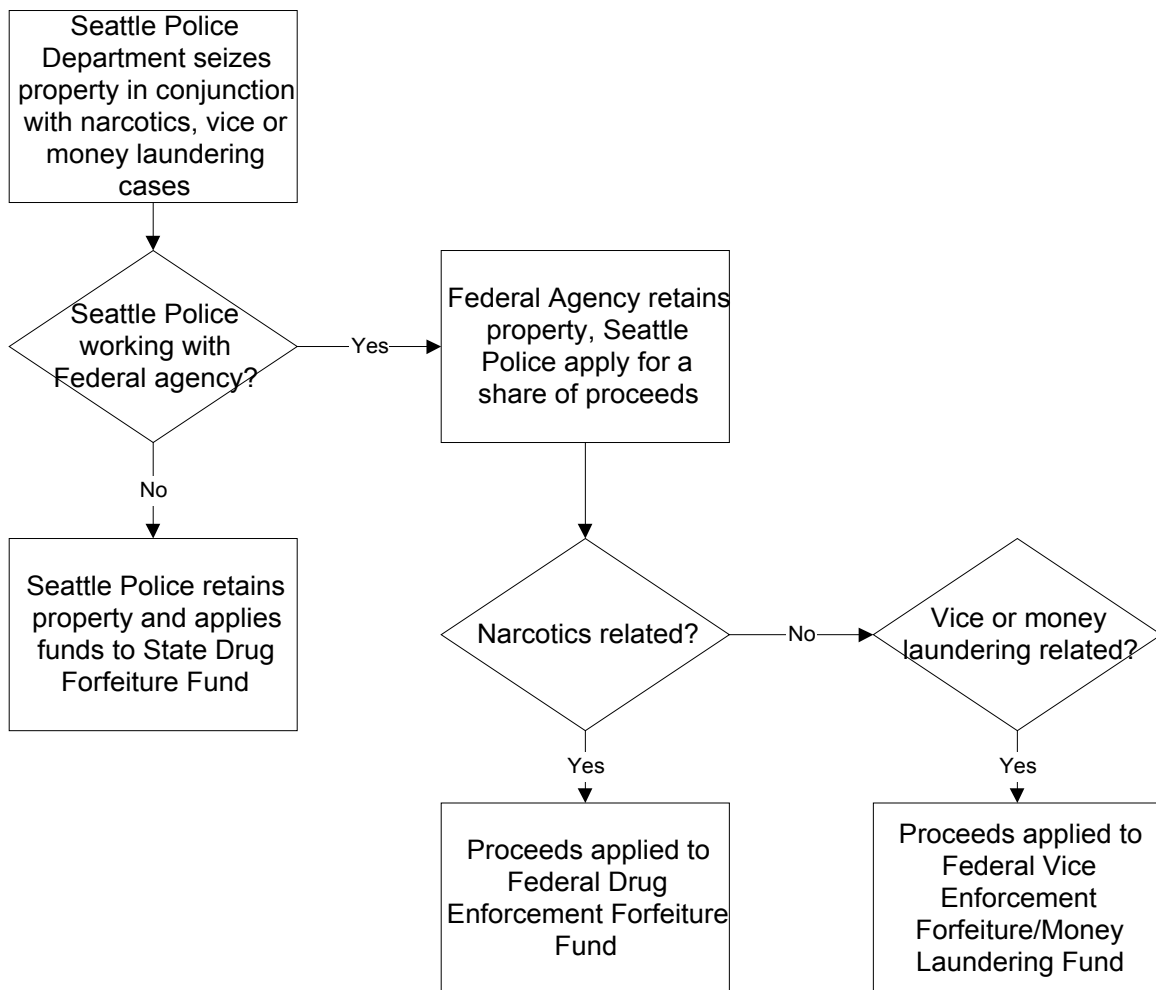
**Seattle Police Department Vice and Narcotics Units' Response to Our Audit Report**

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**Overview of Forfeiture Funds**

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### Description of Audit Tests

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In performing our review of forfeiture funds in the Seattle Police Department, we conducted the following audit tests:

<b>State Drug Forfeiture Fund</b>	<ul style="list-style-type: none"> <li>• Reviewed controls over remitting, expensing and reporting to ensure compliance with relevant laws and regulations;</li> <li>• Reconciled reports to the City's financial records; and</li> <li>• Tested all State Drug Forfeiture 1993 expenditures, totaling \$282,570, against City ordinance and State law for appropriateness and for accuracy of information entered into the Seattle Financial Management System.</li> </ul>
<b>Federal Forfeiture Funds</b>	<ul style="list-style-type: none"> <li>• Reviewed controls for the two federal forfeiture funds to determine whether they ensure receipt of funds due the City, appropriateness of expenditures, and accuracy of reporting;</li> <li>• Traced a sampling of expenditures from the two funds to supporting documentation to ensure that expenses were valid, appropriate, properly authorized by department management and for purposes authorized by federal guidelines. For the Drug Enforcement Forfeiture Fund, we examined 20 (9 percent) of the 164 expenditures in 1993; these 20 expenditures totaled \$155,124 and represented 61 percent of the dollars spent. For the Vice Enforcement Forfeiture/Money Laundering fund, we examined 10 (53 percent) of the 19 expenditures in 1993; the expenditures we examined totaled \$41,983 or 83 percent of dollars spent; and</li> <li>• Traced all the receipt, income and expense items in the 1993 reports and reconciled beginning and ending fund balances for the two federal forfeiture funds to the Seattle Financial Management System General Ledger.</li> </ul>
<b>Vice Unit's Investigative Fund</b>	<ul style="list-style-type: none"> <li>• Reviewed controls to determine whether controls ensure accurate reporting, adequate physical security over cash and proper approval of disbursements by Police Department management;</li> <li>• Counted cash on hand on November 3, 1994 and verified the amount on hand to supporting records; and</li> <li>• Traced July transaction reports to supporting documentation to verify proper Police Department management authorization.</li> </ul>

**Seattle Municipal Code Section 4.72.070  
Disallowed Travel Expenses**

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